

EARMARKED REVENUE GUIDELINES

The committee de-earmarked revenue and simplified the collection and distribution of many revenue sources. There are more funds that could be de-earmarked and program advocates attempt to have future legislation enacted to earmark funds to a particular program. Therefore, the committee recommends guidelines for the earmarking of funds to local government and a review process for such earmarking.

The committee defined earmarking revenue as a state administrative or legislative action that allocates the revenue from a tax, fee, assessment or other source to a local government. The defined general revenue source means a source of revenue not governed by established or implied restrictions based on the source or limited use of the revenue. The term includes taxes, interest earnings, investment earnings, fines, and forfeitures.

Revenue Earmarking Guidelines

The committee recommends a revenue may be earmarked for a specific purpose when 1) one or more of the following conditions are met and 2) there is a recognized need for accountability through a separation of funding from the general fund consistent with generally accepted accounting principles.

- a. The person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee or assessment. Also, the tax, fee or assessment is commensurate with the costs of the program or activity.
- b. The entire cost of the activity is paid by the beneficiary. The tax, fee or assessment paid is commensurate with the cost of the activity, including reasonable administrative costs.
- c. There is an expectation that funds donated by a person or entity will be used for a specified purpose. Grants from private or public entities are considered donations under this subsection.
- d. There is a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose.

The committee recommends the following additional procedures. In the consideration of the general appropriations act for each biennium, the legislature shall determine the appropriateness of earmarking revenue. The office of budget and program planning shall describe the occurrence in its presentation of the executive budget, and the legislative fiscal analyst shall highlight the issue in the budget

analysis and for the appropriations subcommittee considering the earmarking of revenue.

Review of dedicated revenue provisions

The committee recommends that each interim, the Legislative Finance Committee review earmarked revenues based the above guidelines. The committee recommends that an earmarking of revenue should not give a local government an unfair advantage for funding; the expenditures from earmarked revenue must be based on requirements for meeting a legislatively established outcome; statutorily mandated programs or activities funded through earmarked revenues provided from general revenue sources must be reviewed to the same extent as other programs or activities funded from the general fund; and the use of a revenue earmarking may be appropriate if it satisfies one or more of the following:

- a. The program or activity funded provides direct benefits for those who pay the dedicated tax, fee or assessment. Also, the tax, fee or assessment is commensurate with the costs of the program or activity.
- b. The use of the earmarked revenue provision provides special information or other advantages that could not be obtained without earmarking.
- c. The revenue earmarking involves collection and allocation formulas that are appropriate to the present circumstances and current priorities of local and state government.
- d. The revenue earmarking does not impair the legislature's ability to scrutinize budgets, control expenditures and establish priorities for state spending.
- e. The revenue earmarking results in an appropriate projected ending fund balance.
- f. The revenue earmarking fulfills a continuing need recognized by both local government and the legislature.
- g. The earmarking of revenue provision does not result in accounting or auditing inefficiency.

The Legislative Finance Committee should establish procedures to facilitate a biennial review and evaluation of revenue earmarking and report a summary of its findings to the legislature, including its recommendation of termination or extension, with or without modification, of the earmarking of revenues.